What is Ratio Analysis for Consolidated Groups?

Worksheet

Consolidated ratio analysis applies standard ratios (current ratio, debt-to-equity, net margin, etc.) to the consolidated financial statements, after intercompany balances and transactions have been eliminated and non-controlling interests properly classified.

Questions

1. What must be removed before computing a consolidated ratio?

A) Foreign currency translation reserves
B) Intercompany balances and transactions
C) Deferred tax assets
D) Retained earnings

2. Where does non-controlling interest sit in a consolidated debt-to-equity ratio?

A) It is excluded entirely
B) It is added to liabilities
C) It is included within total equity
D) It is netted against goodwill

3. A parent sells inventory to its subsidiary at a profit, and the subsidiary hasn't resold it yet. What happens on consolidation?

A) The profit is doubled
B) The unrealized profit is eliminated
C) Nothing changes
D) The inventory is removed entirely

4. Consolidated CA = $1,400k, Consolidated CL = $800k. What is the current ratio?

A) 0.57
B) 1.75
C) 2.00
D) 1.40

5. Parent P has current assets $900k and current liabilities $500k. Subsidiary S has current assets $600k and current liabilities $400k, including a $100k intercompany payable to P (already inside P's $900k as a receivable). Find the consolidated current ratio.

6. Group total liabilities are $3,200k (after eliminating a $150k intercompany loan) and total equity is $2,000k, split $1,700k attributable to the parent and $300k to non-controlling interests. Find the consolidated debt-to-equity ratio.

7. Parent's standalone revenue is $5,000k and subsidiary's is $2,000k, but $300k of that is sales from the subsidiary to the parent. Consolidated net profit is $560k. Find the consolidated net profit margin.

8. Define: Why can't you just add up each company's individual ratios for a group?

9. Define: How are non-controlling interests (NCI) treated in group ratios?

10. Define: What is eliminated before computing a consolidated liquidity ratio?

Answer Key

1. B) Intercompany balances and transactions - Intercompany balances/transactions are eliminated on consolidation so ratios aren't distorted by internal dealings.

2. C) It is included within total equity - Under IFRS 10, NCI is presented within equity, separate from the parent's equity.

3. B) The unrealized profit is eliminated - Unrealized intercompany profit still in group inventory must be eliminated from consolidated profit and inventory.

4. B) 1.75 - 1,400 / 800 = 1.75.

5. Consolidated CA = 900 + 600 100 (eliminate intercompany receivable) = 1,400 Consolidated CL = 500 + 400 100 (eliminate intercompany payable) = 800 Current Ratio = 1,400 / 800 = 1.75

6. Total consolidated equity = 1,700 + 300 = 2,000 (NCI included as equity per IFRS 10) Debt-to-Equity = 3,200 / 2,000 = 1.60

7. Consolidated revenue = 5,000 + 2,000 300 (eliminate intercompany sale) = 6,700 Net Profit Margin = 560 / 6,700 8.36%

8. Because intercompany balances and transactions must be eliminated first - adding raw figures double-counts them.

9. NCI is part of consolidated equity (IFRS 10), so it belongs in the denominator of leverage ratios like debt-to-equity.

10. Intercompany receivables and payables between group companies.